HOODSWEENEY

LIFE+PRACTICE

A lifestyle magazine for the healthcare profession

SPECIAL EDITION

IMPORTANT CHANGES TO SUPERANNUATION

Meet the

HOOD SWEENEY

Health Team

Contact one of our Health Team professionals to discuss how we can help to improve your practice accounting structures, protect your biggest asset and support you in your business strategy.

Lisa Hickey
Director, Accounting & Business Advisory
lisa.hickey@hoodsweeney.com.au
Representative of Hood Sweeney Accounting & Business Advisory AFSL No. 485569

Heang Lay
Manager, Accounting & Business Advisory
heang.lay@hoodsweeney.com.au
Representative of Hood Sweeney Accounting & Business Advisory AFSL No. 485569

Yolanda Herczeg
Accountant, Accounting & Business Advisory
yolanda.herczeg@hoodsweeney.com.au
Representative of Hood Sweeney Accounting & Business Advisory AFSL No. 485569

Simon Starr
Director, Consulting & Performance Coaching
simon.starr@hoodsweeney.com.au

Leigh McMahon
General Manager, Business Development and Marketing
leigh.mcmahon@hoodsweeney.com.au

Adrian Zoppa CFP®
Director, Financial Planning
adrian.zoppa@hoodsweeney.com.au
Authorised Representative No. 239866
Hood Sweeney Securities Pty Ltd AFSL 220897

Mark Mullins
Associate Director, Financial Planning
mark.mullins@hoodsweeney.com.au
Authorised Representative No. 323919
Hood Sweeney Securities Pty Ltd AFSL No. 220897

Chris Stewart
Managing Director, Consulting & Governance
chris.stewart@hoodsweeney.com.au

Jock Duncan
Director, HR Consulting
jock.duncan@hoodsweeney.com.au

HOODSWEENEY
join the journey

T 1300 764 200 **F** 08 8232 1968
www.hoodsweeney.com.au

11–16 South Terrace Adelaide SA 5000
PO Box 10516 Adelaide BC SA 5000

Suite 13, Level 1 City Plaza Building
15–15a Darling Terrace Whyalla SA 5600

6a Graves Street Kadina SA 5554

The Federal Government has legislated the most significant changes to superannuation since 2007 which will come into effect 1 July 2017, says Hood Sweeney Director of Financial Planning and Health Team Leader, Adrian Zoppa.

These changes have implications for all super members and some are different to those announced in the May 2016 Federal Budget. If you are planning to retire soon, or have already retired, then it's important to know how these changes may affect you.

Some of the key changes are:

- Reduced non-concessional (after-tax) contributions cap of $100,000 per year or $300,000 over a three year period (down from $180,000 per year or $540,000 over 3 years)
- Unable to make non-concessional contributions when more than $1.6 million is held in super
- Income threshold for spouse contributions tax offset will increase to $40,000
- Reduced concessional (pre-tax) contributions cap of $25,000 per year
- Additional concessional contributions tax of 15% will apply to members with adjusted taxable income of $250,000 (down from $300,000)
- Removal of the '10% test' for employment income when claiming personal concessional contributions
- Low-income super tax offset will apply to tax payable on concessional contributions where individual's adjusted taxable income is $37,000 or less
- Removing the tax-free earnings status for Super Funds paying transition to retirement pensions
- Introduction of a $1.6 million cap on pension amounts
- Earnings will only be received tax-free by the superannuation fund on pensions applicable to a member who has retired, or has reached 65 years old.

The changed legislation includes contributions made to a constitutionally protected fund, for example Super SA, or 'deemed contributions' to a defined benefit fund.

Contributions

- May continue making salary sacrifice contributions to a 'Constitutionally Protected' government fund (e.g. Super SA) above the concessional contribution limit
- These contributions will count towards the concessional contribution limit but not incur excess contributions tax
- Any concessional contributions made to a second taxed super fund (e.g. SMSF) will incur excess contributions tax where contributions to your government untaxed fund exceed the $25,000 limit
- Additional concessional contributions to a government fund may be made via salary sacrifice of government earnings
- Up to 100% of concessional contributions made to constitutionally protected fund may be split with a spouse (subject to the fund rules) in the following financial year.

Pensions

- Superannuation Benefits held within a constitutionally protected fund need to be taken into account when considering 'total superannuation balance' for eligibility to make non-concessional contributions and 'transfer balance cap' when commencing a pension
- Additional income tax will be applied to defined benefit income streams exceeding 1/16th of the Transfer Balance Cap ($100,000 for the financial year ending 30 June 2018).

"Based on the changes these contributions will count towards the concessional contribution limit however will not be taxed as excess concessional contributions.

So, if you're a government employee your superannuation position is unique and there may be other implications for you," Adrian says.

"The super changes can be confusing. We have prepared a table to outline some of them in relation to non-concessional contributions, concessional contributions, transition to retirement and pensions, in comparison to the current legislation," Adrian says.

Current	Change - 1 July 2017
Non-concessional contributions (post-tax)	
Current cap of $180,000 per annum or $540,000 over three year period. May make non-concessional contributions within these limits no matter how much is already held in superannuation.	Cap reduces to $100,000 per annum or $300,000 over three year period. If more than $1,600,000 held in super at 30 June no further non-concessional contributions may be made. 3 year Bring Forward rule only available if additional non-concessional contributions does not push previous 30 June total balance over $1,600,000.
Concessional contributions (pre-tax)	
Limit of $35,000 per annum for individuals age 49 or over on 30 June 2016. $30,000 per annum for all other individuals. If generate more than 10% of assessable income from employment may only make additional concessional contributions by salary sacrifice. Concessional contributions made to a constitutionally protected fund (eg Super SA) do not count towards the Concessional contribution limits. Where an individual's adjusted taxable income exceeds $300,000 additional contributions tax of 15% will be applied to concessional contributions made.	$25,000 concessional contribution limit for all individuals. Employees are no longer required to salary sacrifice to make additional concessional contributions. Concessional contributions made to a constitutionally protected fund (e.g. Super SA) will count towards the Concessional contribution limit; however no excess contributions tax will be levied on amounts above the $25,000 limit contributed to this fund. Where an individual's adjusted taxable income exceeds $250,000 additional contributions tax of 15% will be applied to concessional contributions made.
Transition to retirement pensions	
If you continue to work and are aged between preservation age and 65 you may access up to 10% of your superannuation benefits as a Transition to Retirement Pension. Earnings on investments held to pay a Transition to Retirement Pension are tax free in the Fund.	Earnings on investments held to pay a Transition to Retirement Pension will no longer be received by the fund tax free. Earnings will be taxed at 15% within the fund. Can still access up to 10% of your superannuation benefits.
Pensions	
No limit to the amount that may be held in the tax free pension phase within superannuation.	Transfer Balance Cap limits the amount that may be transferred into tax-free pension phase to $1,600,000 per person. Amounts above $1,600,000 may be retained in super in accumulation phase where earnings are taxed at 15% within the fund. Lifetime and Life Expectancy defined benefit pensions will be assessed against the Transfer Balance Cap. The value assessed will be determined by multiplying the annual entitlement at commencement (or 1 July 2017) by a factor of 16 or the remaining term.

"We encourage you to exercise care in making larger super contributions in the 2017/18 financial year in regards to the amount and type of contribution. Take the opportunity to avoid any excess penalties by reviewing contributions made during two preceding financial years," Adrian says.

There are options available which might improve your position. Implementing these prior to 30 June 2017 could have a greater benefit.

Contributions

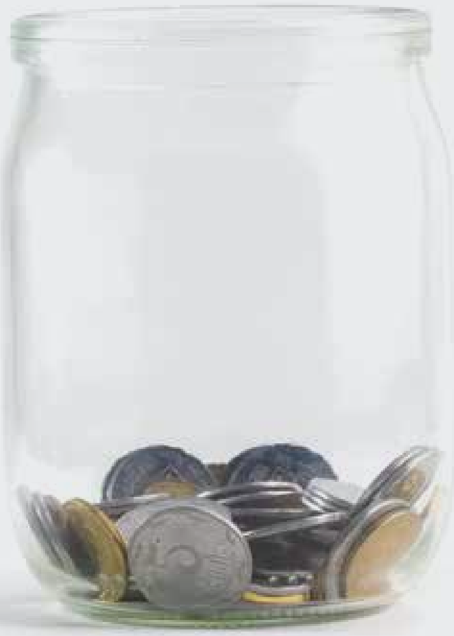
- Making non-concessional contributions to superannuation earlier and over a period of time due to reduced limits and cap on total superannuation. Your last opportunity for contributing up to the current $540,000 cap is 30 June 2017
- Recontribution strategies to transfer excess balance to spouse with total super under Transfer Balance Cap
- Spouse contribution splitting – Allows 85% (100% Super SA) of concessional contributions to be transferred to a spouse's super account in the following financial year.
- Transition-to-Retirement (TTR)
- Tax-exempt status of income from assets supporting TTR Pension has been removed
- These earnings will now be taxed concessionally at 15%, and for assets held 12+ months a net capital gain may be taxed at 10%
- The tax treatment of income streams in the hands of the individual will not change. For individuals age 60 and above, this will mean they are tax free, or under age 60 are taxed at the individual's marginal tax rate less a 15% offset.

Pensions

- Transfer Balance Cap limits the amount that may be transferred to pension phase and is used to assess eligibility for non-concessional contributions. May still hold additional funds in super in accumulation phase
- Amounts assessed against the Transfer Balance Cap are not re-assessed each year. All earnings on funds held in pension may remain in pension phase
- Will continue to be required to draw at least the relevant aged based minimum pension on all funds held in pension phase to receive 0% tax on earnings.

General

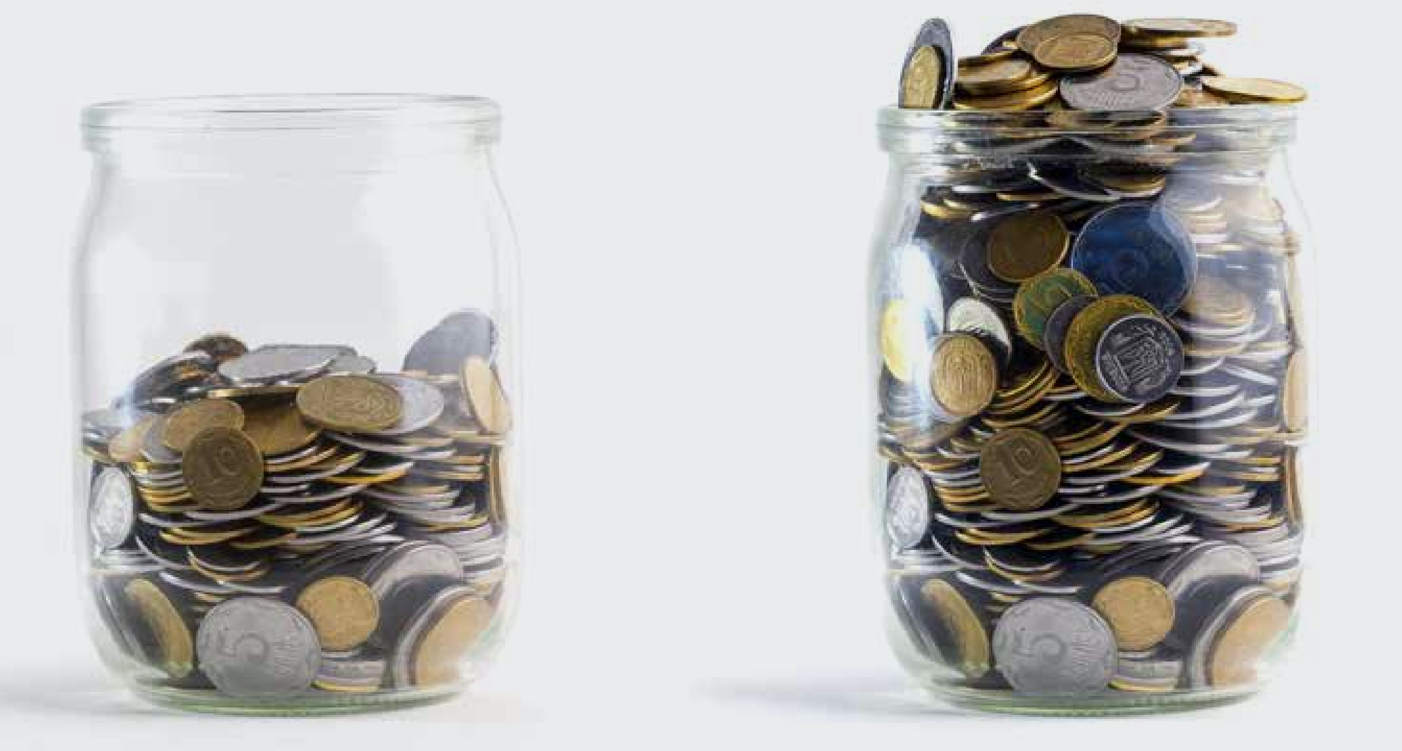
- Holding additional wealth outside of superannuation to take advantage of Marginal tax rates in retirement
  - Limited protection available if tax-free threshold is reduced or marginal tax rates increase.



Those who want to make the most out of these higher concessional and non-concessional limits for this financial year need to start thinking about it now.

Hood Sweeney can help you to review your financial situation and goals in light of these changes. We can offer advice should opportunities arise or changes are required.

Contact Health Team Leaders Adrian Zoppa or Lisa Hickey on 1300 764 200 to discuss your situation and options.



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